

CNI TECHNICAL SERVICES, LLC, *et.al.* \* IN THE  
Petitioner \* MARYLAND TAX COURT  
v. \* APPEAL NOS.17-IN-00-0743  
17-IN-00-0748

COMPTROLLER OF MARYLAND \*  
Respondent \*

\* \* \* \* \*

**ORDER AND STATEMENT FOR GROUNDS OF DECISION**

Petitioners (the “CNI Subsidiaries”), have requested a brief statement of the grounds for the Court’s November 30, 2018 decision to grant the motion for summary judgment filed by Respondent (the “Comptroller”)A and deny the motion for summary judgment filed by the CNI Subsidiaries. By Order dated December 13, 2018 the Court’s Order of November 30, 2018 was withdrawn in order to provide the parties a statement of its grounds for decision.

The Court finds that the material facts are not in dispute and are sufficient to resolve the motion and cross-motion for summary judgment.

Each of the six petitioners is a limited liability company organized under state law. Four of the subsidiaries—CNI Technical Services, LLC; CNI Ancillary Services, LLC; Chickasaw Advisory Services, LLC; and CNI Information Technology, LLC—are Oklahoma limited liability companies. A+ Solutions, LLC is a Delaware LLC, while CNI Professional Services, LLC is a Texas limited liability company. The common and sole direct owner of petitioners is CNI Government, LLC, itself an Oklahoma limited liability company. Comptroller agrees with Petitioners that the CNI Subsidiaries have no federal

tax liability but contends that the state of Maryland has clear authority to tax the Maryland-allocable income of CNI. Comptroller claims that taxpayers are not afforded immunity from Maryland tax simply by virtue of CNI's sole ownership.

Petitioners rely on the "doctrine of conformity between state and federal law." *Comptroller of the Treasury v Colonial Farm Credit*, 173 Md. App. 173, 181 (2007). Since 1967 the Maryland tax code was restructured and federal taxable income was adopted as the base from which state tax liability was to be determined. Section 10-304 of the Tax-Gen Article provides in part that a corporation's federal taxable income is the initial inquiry for determining whether a corporation is subject to Maryland tax. Since the CNI Subsidiaries have never filed federal income tax returns, they are not "subject to federal taxation" and have no associated obligation to file federal income tax returns. Petitioners argue that if an entity is not subject to federal taxation its federal taxable income is entered as \$0 on the amended Form 500 since they have no federal taxable income.

Maryland imposes an income tax "on each pass-through entity that has . . . any member who is a nonresident of the State or is a nonresident entity" and "any nonresident taxable income for the taxable year." Md. Code Ann., Tax-Gen, § 10-102.1(b) (2016 Repl. Vol.). Each of the CNI Subsidiaries is a nonresident pass-through entity, and each has a single member—CNI Government, LLC—that is a nonresident of Maryland. The tax is equal to 8.25%, and is imposed on the CNI Subsidiaries' nonresident taxable [income] which is allocable to Maryland.

The *Federal taxable income* is the measure the Maryland corporation income tax uses as the starting point for calculating a corporation's Maryland tax liability. Federal

taxable income' does not mean, as the Petitioners suggest, the amount of income on which a corporation actually pays federal income tax. It is simply a figure developed by the federal return.

The taxability of individuals and corporations in the state of Maryland does not turn on whether a taxpayer actually completed a federal return; Maryland is concerned with the figures calculated by the rules of the return, not the physical act of completion. While CNI may not be obliged to complete a Form 1120 for the federal government, CNI and its subsidiaries are clearly required to do so in order to complete the Maryland return. The CNI Subsidiaries have Maryland taxable income liability and as single member LLCs/disregarded entities, do not receive the same tax treatment as their nonresident owner.

The Court denies Petitioners' motion for summary judgment and grants the Comptroller's cross-motion for summary judgment. The tax assessments against the Petitioners are hereby affirmed.

CC: Diane Festino Schmitt, Esq.  
Michael J. Salem, Esq.

**CERTIFIED TRUE COPY**  
**TEST:** John T. Hearn, Clerk

Date Issued: January 17, 2019

**NOTICE:** You have the right of appeal from the above Order to the Circuit Court of any County or Baltimore City, wherein the property or subject of the assessment may be situated. The Petition for Judicial Review **MUST** be filed in the proper Court within thirty (30) days from the date of the above Order of the Maryland Tax Court. Please refer to Rule 7-200 et seq. of the Maryland Rules of Court, which can be found in most public libraries.